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SUBJECT: UZBEKISTAN: REMITTANCES 2009 -- DROP NOT AS BAD AS EXPECTED?

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1. (SBU) SUMMARY. Remittances are an important source of external financing for the Uzbek economy, accounting for 10 percent or more of the national GDP. With the downturn in the world economy, many feared a dramatic drop in remittances to Uzbekistan followed by ballooning unemployment and possible civil unrest. Indications for the first quarter of 2009, however, are that the drop is more modest, in the range of 15-20 percent, with only one source indicating a larger drop in the 40 percent range. With the peak summer months for remittances having only just begun, the full impact of the crisis on remittances should become more apparent. END  
SUMMARY

2. (SBU) The Government of Uzbekistan (GOU) does not publish accurate, detailed statistics on money transfers, but even official figures acknowledge almost USD 1.8 billion (over 10 percent of GDP) in remittances in 2008. Estimates of the number of migrant workers abroad vary wildly from 500,000 to five million, but most observers believe the true figure is in the range 1-2 million (refs A, B, and C). Overall about a third of Uzbekistan's workforce goes abroad in search of employment. The majority of these are men who work in the construction, agriculture, and energy sectors in Russia and Kazakhstan. Thus, when the world financial crisis brought a sudden end to the construction boom in these countries, many predicted a precipitous drop in remittances, the return of migrant workers to Uzbekistan, and the possibility of civil unrest brought about by a large unemployed population.

WESTERN UNION  
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3. (SBU) The picture surrounding 2009 remittances is beginning to form. According to analysts in the World Bank's Tashkent office, the volume of remittances in January-April was down by 15 percent year-on-year. Western Union Country Director Mr. Jalil Haydarov told us that, based on numbers seen to date, his company expects a 20 percent reduction

in remittances in 2009. Only the Russian Central Bank indicates a larger reduction. Its published numbers show remittances of USD 292 million from Russia to Uzbekistan in the first quarter of 2009, which is 41 percent less than in the same period last year.

¶4. (SBU) Mr. Haydarov added that the majority of labor migrants in the CIS still do not trust financial institutions and legal money remittance channels. More than half of all remittances go through illegal or "undocumented" channels. This means that the contribution remittances make to Uzbekistan's GDP could be much larger than 10 percent, and thus even a modest drop in remittances could have a significant effect on the macroeconomic picture. Haydarov told us that, in addition to Russia and Kazakhstan, there are significant numbers of Uzbek workers (both official and unofficial) in EU countries (particularly Poland, Holland, Germany and Spain), the Middle East (UAE, Turkey), Asia (Korea, Thailand), and the Americas.

#### SOCHI OLYMPIC GAMES

¶5. (SBU) A human rights activist in the Ferghana Valley told the Ambassador this week that he

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expected up to a quarter of the migrant workers based in this most populous region of Uzbekistan to find work in the coming year. Construction projects associated with the Olympic Games in Sochi, Russia, were expected to be a prime source of employment. But this would still leave up to three quarters of the sizable Ferghana Valley migrant labor pool looking for work.

#### COMMENT

¶6. (SBU) If the World Bank and Western Union figures are correct, they lend credence to earlier predictions from some of our GOU contacts to the effect that Uzbek labor migrants have advantages that migrants from other Central Asian countries do not. Namely, the Uzbek laborers are more skilled, are spread over more countries and regions, and have responded with mobility and flexibility to the changing labor market.

¶7. (SBU) Remittances have a seasonal character, with peak money transfers taking place in June-July and November-December. Although early indications are that the situation is not as bad as some feared, the full picture on remittances will only emerge later in the year.

NORLAND